Mailed 9/9/2002

Decision 02-09-021 September 5, 2002

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

Application Of Pacific Gas And Electric Company (U 39 M) For Ex Parte Approval Of The 2002 California Alternate Rates For Energy Budget.	Application 02-04-031 (Filed April 8, 2002)
In the Matter of the Application of San Diego Gas & Electric Company (U 902-M) for Approval of 2002 CARE Activities and Budget.	Application 02-04-034 (Filed April 18, 2002)
Southern California Edison Company's (U 338-E) Application Regarding California Alternate Rates For Energy Program Funding for Program Year 2002.	Application 02-04-035 (Filed April 18, 2002)
In the Matter of the Application of Southern California Gas Company (U 904-G) for Approval of 2002 CARE Activities and Budget.	Application 02-04-036 (Filed April 18, 2002)

O P I N I O N

TABLE OF CONTENTS

Summary [1]

By this decision, we adopt the following program year (PY) 2002 budgets for the California Alternate Rates For Energy (CARE) programs of Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (SCE) and Southern California Gas Company (SoCal), collectively referred to as "the utilities:"

AUTHORIZED PY2002 CARE BUDGETS				
Cost Category	PG&E	SCE	SDG&E	SoCal
Outreach	$ 5,095,000	$ 840,840	$ 2,011,074	$ 3,087,794
Processing/Certification/Verification	$ 1,320,000	$ 520,798	$ 212,235	$ 766,030
Billing/Programming	$ 20,000	$ 500,000	$ 35,000	$ 596,898
Measurement/Evaluation	$ 266,600	$ 344,000	$ 301,366	$ 55,800
Regulatory Compliance	$ 100,000	$ 80,000	$ 86,286	$67,045
General Administration	$ 321,552	$ 464,500	$ 189,185	$ 24,794
Indirect Costs	$0	$82,700	$ 416,058	$0
Energy Division	$ 82,700	$ 195,500	$ 30,000	$ 68,950
LIAB/LIOB	$ 100,000	$50,000	$ 47,832	$ 35,000
Total Administration	$ 7,305,852	$ 3,078,338	$ 3,329,036	$ 4,702,311
CARE Subsidy	$ 125,000,000	$ 93,400,000	$ 25,568,477	$ 42,533,000
Total CARE Program	$ 132,305,852	$ 96,478,338	$ 28,897,513	$ 47,235,311

These budgets cover all CARE-related activities with the exception of those specifically associated with the automatic enrollment program we adopted in Decision (D.) 02-07-033. As explained in that decision, the costs associated with automatic enrollment are difficult to estimate until we gain experience with program implementation. Moreover, certain other CARE administrative costs

[1] Attachment 1 explains each acronym or other abbreviation that appears in this decision.

are likely to decrease once automatic enrollment is underway, and we cannot predict the net effect on CARE budgets. Per D.02-07-033, the utilities should separately track the costs of automatic enrollment in their CARE balancing accounts. We plan to reassess today's adopted budgets during 2003 in light of the impact that automatic enrollment has on CARE enrollments and overall administrative costs.

Senate Bill (SB) No. 2 from the Second Extraordinary Session (SBX2 2 Stats. 2001, Ch. 11) amends Public Utilities Code Section 739.1(b) to authorize the recovery of CARE program administrative costs through a balancing account, subject to the Commission's determination that such costs are reasonable. By today's decision, we make modifications to the current ratemaking treatment for these costs to comply with this direction. We also establish procedures for the reasonableness review of CARE administrative expenditures. They consist of an examination of the utilities' proposed budgets, such as the one we perform in today's decision, followed by a reasonableness review of actual utility expenditures.

Our examination of the proposals in this proceeding reveals serious inconsistencies in administrative cost accounting conventions across the utilities. As described in this decision, these inconsistencies make it difficult to compare the budget proposals and expenditure history across utilities in conducting our review, particularly for certain categories of overhead costs. They also raise concerns that the utilities may be including costs in their budgets that are not incremental to the CARE program. For these reasons, we direct Energy Division to conduct a thorough audit of the utilities' PY2002 CARE administrative expenditures as part of our ex post reasonableness review. The utilities should track the actual costs of the Energy Division audit in the CARE balancing account, to be reimbursed along with other CARE-related Energy Division costs.

Background

By D.01-05-033, the Commission adopted a rapid deployment strategy for the utilities' low-income assistance programs during the energy crisis. These programs consist of direct weatherization and energy efficiency services under the Low-Income Energy Efficiency (LIEE) program and rate assistance under CARE.

Currently, qualifying households receive a 20% rate discount under CARE and are also exempt from the 1-cent and 3-cent 2001 electric rate surcharges.[2] In order to increase program outreach, D.01-05-033 authorized the utilities to pay "capitation fees" to low-income assistance organizations of up to $12 per CARE enrollee. In addition, the Commission directed the utilities to increase non-English radio and print advertising and to take other steps to increase program participation in both CARE and LIEE. For this purpose, the Commission augmented the annual funding for these programs that was collected via the Public Goods Charge (PGC) with available funding from prior year unexpended budgets and one-time supplemental funds appropriated by SB X1 5.[3]

---

[2] Eligible CARE customers are also exempt from the CARE component of the public purpose charges.

[3] SBX1 5 provided a one-time increase to LIEE program of $20 million. The statute also authorized another $50 million for appliance replacement and other energy efficiency measures, of which the Commission allocated $25 million to further supplement LIEE funding during the energy crisis. In addition, SBX1 5 provided a one-time appropriation of $100 million to supplement the funding collected in rates for CARE discounts and outreach efforts. However, approximately $84 million of this CARE program augmentation was subsequently rescinded by the Governor in his November 2001 Budget Revisions.

By D.01-05-033, the Commission directed that rapid deployment of low-income assistance programs continue "until further Commission order" [4] and initiated a monthly reporting process to monitor the utilities' progress. The Assigned Commissioner and Administrative Law Judge (ALJ) held public status conferences on July 11, 2001 (San Francisco), August 28, 2001 (Los Angeles) and February 8, 2002 (San Francisco) to discuss the results of the utilities' rapid deployment efforts. The utilities reported that the funding established in D.01-05-033 would cover their LIEE rapid deployment efforts through 2002. However, for the CARE program, they reported that current funding levels would be insufficient to cover the expected costs of rate subsidies and administrative costs through the rest of the year.[5]

In response to this information, the Assigned Commissioner directed the utilities, as follows:

> "The Commission will need to address these shortfalls through a ratemaking proceeding. By today's ruling, I direct the utilities to file applications describing their proposed CARE administrative activities and budgets for 2002, by expenditure category, and estimated rate subsidy costs through the end of 2002. The filings should include a detailed description of the basis for these projections, as well as the utilities' proposals for ratemaking treatment of anticipated shortfalls…
>
> "I note that Senate Bill X[2] 2 authorizes the recovery of CARE program administrative costs through a balancing account mechanism, provided that the Commission determines these costs to

---

[4] D.01-05-033, p. 67; Ordering Paragraph 19. This direction was reiterated in D.02-07-033, Conclusion of Law 1.

[5] See Assigned Commissioner's rulings dated February 27, 2002 and March 29, 2002 in R.01-08-027, and the expenditure tables in the utilities' monthly status reports.

> be reasonable. In their filings, the utilities should provide enough documentation of their planned expenditures and activities to facilitate a "before the fact" evaluation of reasonableness (via pre-approval of the expenditures and associated budgets by Commission decision) and propose specific procedures to employ an "after the fact" reasonableness review of such expenditures.[6]

On April 18, 2002, the utilities filed applications describing their proposed CARE administrative activities, budgets and ratemaking treatment to cover anticipated shortfalls in their rapid deployment plans during 2002. The Office of Ratepayer Advocates (ORA) and AARP filed comments on the applications.

By ruling dated April 26, 2002, the ALJ requested supplemental written information on the utilities' ratemaking proposals, which the utilities jointly filed on May 10, 2002. The ALJ questioned utility representatives on these submittals during the May 16, 2002 prehearing conference (PHC). In addition, the ALJ directed the utilities to supplement their applications with additional narrative and tables on their 2002 program expenditure proposals. The Assigned Commissioner issued a scoping memo pursuant to Article 2.5 of the Commission's Rules of Practice and Procedure on May 30, 2002.

The utilities filed their supplemental information on June 4, 2002 and ORA filed a response on June 19, 2002. In its response, ORA stated that it did not contest the utilities proposed 2002 CARE budgets. However, ORA made recommendations regarding SCE's proposed ratemaking treatment for CARE-related expenditures. In response to these recommendations, SCE filed a reply on June 26, 2002 withdrawing certain elements of its ratemaking proposal. The ALJ held a phone conference call on July 2, 2002 with ORA and SCE in order to

[6] Assigned Commissioner's Ruling Regarding CARE Program Funding For 2002, R.01-08-027, March 29, 2002, pp. 1-2.

assess whether there were any remaining contested issues. ORA stated that there were not.

SDG&E and SoCal filed errata to their budget tables on July 12 and again on July 15, 2002. At the request of the ALJ, PG&E submitted revisions to its CARE subsidy calculations on July 15, 2002 to reflect the same treatment of surcharge exemptions as the other utilities' tables.

On July 17, 2002, the Commission issued D.02-07-033 in Rulemaking (R.) 01-08-027. Among other things, the decision established minimum CARE penetration rate targets for PY2002 by utility and adopted a CARE automatic enrollment program. The automatic enrollment program will enroll customers of PG&E, SCE, SoCal, and SDG&E into CARE when they participate in the following partner agency programs: Medi-Cal, and Women, Infants and Children administered through the California Department of Health Services, Healthy Families administered by the Managed Risk Medical Insurance Board, or the Energy Assistance Programs administered by the Department of Community Services and Development. As described in D.02-07-033, the Commission will administer the agency data exchange for automatic enrollment and serve as the clearinghouse to identify electronic matches between agency and utility customer records. The implementation of automatic enrollment is on an expedited schedule.

Discussion

SBX2 2 amends Public Utilities Code Section 739.1(b) to authorize the recovery of CARE program administrative costs as follows:

> "The commission shall authorize recovery of all administrative costs associated with the implementation of the CARE program that the commission determines to be reasonable, through a balancing account mechanism. Administrative costs shall include, but are not limited to, outreach, marketing, regulatory compliance, certification

> and verification, billing, measurement and evaluation, and capital improvements and upgrades to communications and processing equipment."

Under a balancing account mechanism, we adopt a level of authorized revenues (budgets) on a prospective basis to be collected from ratepayers. A rate is established to collect the authorized amount in the account. Actual expenditures are also tracked and booked to that account. Under-collections from the established rate (relative to actual expenditures) are collected by the utility through subsequent rate adjustments. Conversely, over-collections are used to reduce rates or are carried over to offset future program costs, as appropriate.

This procedure, however, is not generally automatic. The Commission must find the actual expenditures to be reasonable. A "before the fact" (ex ante) review of proposed activities and expenditures is generally conducted to ensure that the amount of revenues collected into the balancing account is reasonable. This results in an authorized budget for the program. However, the authorized budget is not, by definition, binding under balancing account treatment. Therefore, cost recovery of actual expenditures is often subject to an ex post (after the fact) review of reasonableness as well. This ensures that actual expenditures and administrative activities, which may differ from those authorized by the Commission during the ex ante review, are reasonable.

The CARE rate subsidy is an exception to the general practice of conducting reasonableness reviews in conjunction with balancing account cost recovery. The utilities recover the revenue shortfalls associated with the 20% CARE rate discount through a balancing account without any such review. Since SBX2 2 does not address CARE subsidy costs, nothing in the statute requires that we modify our longstanding policy that CARE subsidy costs be handled as an automatic pass through.[7]

For CARE administrative expenses, SBX2 2 gives us clear direction to both (1) establish balancing account treatment and (2) conduct a reasonableness review. SoCal and SDG&E have been recovering their CARE administrative costs via a balancing account since the inception of the program. However, PG&E and SCE are currently operating under a ratemaking mechanism that authorizes recovery of projected, rather than actual, CARE-related administrative expenses.

Accordingly, we establish balancing account treatment for the CARE administrative expenses of PG&E and SCE in today's decision. In the following sections we establish the procedures for our reasonableness review of utilities' PY2002 expenditures and evaluate the utilities' CARE budget submittals and specific ratemaking proposals.

3.1 Procedures For Reasonableness Review

The Assigned Commissioner directed the utilities to describe in their applications the reasonableness review that should be undertaken for their PY2002 CARE administrative expenditures. The utilities recommend that the Commission evaluate reasonableness by: (1) performing an ex ante review of the utilities' proposed CARE administrative activities and budgets in this proceeding (2) conducting an ex post compliance review of the utilities' actual PY2002 CARE

[7] See D.89-09-043, 32 CPUC 2d, 406, 413 (emphasis added). : "…*unlike the residential rate shortfall,* [CARE] administrative costs must be reviewed for reasonableness before they may be recovered in rates."

expenditures, as reported in their annual May 1 CARE reports. SDG&E/SoCal further describes their proposal for an ex post compliance review, as follows:

> "…Commission staff should be able to quickly review actual expenditures to determine if they were consistent with the amounts already deemed reasonable by the Commission. As long as [the utilities'] actual 2002 CARE administrative expenditures are consistent with their proposals in this proceeding, or there is a reasonable explanation for any substantial difference (e.g., program participation in excess of forecasted levels), the Commission would deem the expenditures reasonable and authorize the utilities to reflect their actual expenditure levels in their annual true-ups of their Public Purpose Program surcharges."[8]

The utilities contend that this approach is consistent with the manner in which we have addressed the reasonableness review of CARE administrative costs during our rapid deployment efforts to date and in years past. By focusing the ex post evaluation on general consistency with program proposals, rather than a detailed audit of each activity, they argue that this approach recognizes that the Commission has given the utilities considerable flexibility to develop CARE outreach strategies during rapid deployment.

We agree with the utilities that the ex post evaluation for PY2002 should focus on general consistency with program proposals, rather than a detailed review of whether particular activities (e.g., a certain media program or decision to reprogram billing systems in a specific manner) were reasonable

---

[8] SDG&E/SoCal's Application; Direct Testimony, p. 12. See also SCE's Application; Testimony, p. 19, where SCE recommends a similar approach to reasonableness review. PG&E did not discuss this issue in its application but during discussion at the May 16, 2002 prehearing conference, appears to agree with the general approach outlined above. (Reporter's Transcript, pp. 15-17.)

after-the-fact. However, as in this decision, our review of the utilities' PY2002 program budgets raises fundamental questions about the manner in which they are reporting and recovering administrative expenses for CARE-related activities, and to what extent these expenditures are incremental to the program. We therefore direct Energy Division to conduct an audit of PY2002 CARE administrative expenditures to examine these issues, as described further below.

We note that the utilities have been directed in years past to improve upon the consistency with which they record and report CARE administrative expenditures. On May 17, 1999, the utilities submitted a compliance filing addressing the treatment of administrative costs for CARE and LIEE.[9] On pages 4 and 6 of the filing, the utilities indicated that utility practice for direct, indirect and burdened costs at the time of the filing varied.[10] However, the utilities indicated that they were working toward consistency. On pages 6-8 of the filing, the utilities listed and provided general descriptions of four specific categories of administrative costs and requested that those administrative cost categories be effective January 1, 2000.

On April 28, 2000, the Assigned Commissioner noted the utilities' filing and listed a number of unresolved issues and established a schedule to resolve

---

[9] Compliance Filing Of PG&E, Edison, SDG&E, SoCal In Accordance With Ordering Paragraph 1(O)(Iii) Of Resolution E-3586, adopted January 20, 1999, Addressing The Treatment Of Administrative Costs For The California Alternate Rate For Energy And Low Income Energy Efficiency Programs, submitted in R.98-07-037.

[10] As defined in the Reporting Requirements Manual (Appendix B), direct costs are those expenditures tied directly to a project or program by invoice, timesheet or factual analysis of recorded costs. Indirect costs are those attributed to the program by the use of something else for the program (e.g., benefits, insurance and pensions for labor), and billed to the program. Burden costs refer to those indirect costs that are not billed to the program.

them.[11] The Reporting Requirements Manual Working Group (Working Group) was directed to try to resolve the outstanding issues and submit a report by October 1, 2000. Included in the list of unresolved issues were the following:

- Whether to break out administrative cost categories by function, rather than by labor, non-labor and contract categories.
- How to specifically define administrative vs. implementation costs, internal and out-sourced costs.

The Working Group submitted its report on October 2, 2000, which consisted of revised sections of the Reporting Requirements Manual. The revised sections included Appendix B – Reporting Category Definitions. These definitions indicate administrative costs will include direct and indirect costs, but are ambiguous as to the levels of indirect costs or which indirect costs are to be included for reporting purposes. The definitions and revised sections are silent on the issue of whether or not indirect and burdened costs are to be recovered by base rates or through the CARE program.

On April 16, 2001, the Working Group again submitted revised sections of the Reporting Requirements Manual. This revised Manual did not change the definitions of administrative costs and remained ambiguous as to the levels of indirect costs or which indirect costs are to be included for reporting purposes. This version of the Reporting Requirements Manual also remained silent on the issue of whether or not indirect and burdened costs are to be recovered by base rates or through the CARE program.

---

[11] Assigned Commissioner's Ruling Regarding Standardization of Reporting Requirements and Utility Administrative Costs for Low-Income Programs, dated April 28, 2000, in R.98-07-037.

We have also given the utilities clear direction that the administrative costs booked to low-income assistance balancing accounts must be "incremental" costs, i.e., not provided for in the utility's base rates. By D.89-09-043, the Commission authorized the utilities to book administrative costs associated with the CARE program (formally referred to as the Low Income Ratepayer Assistance or "LIRA" program), into a new balancing account until we could determine those costs and incorporate them into base rates. During the initial years of the program, the utilities recovered all actual administrative costs, subject to an after-the-fact reasonableness review of expenditures:

> "Administrative budgets cannot be guaranteed rate recovery until they are found to be reasonable. Thus, the utilities should book their administrative costs into the LIRA balancing account…However, unlike the residential rate shortfall, administrative costs must be reviewed for reasonableness before they may be recovered in rates. *Booked costs will be reviewed to ascertain whether they are indeed incremental or had been provided for in the utility's base rate.'*"[12]

During subsequent general rate case cycles, SCE and PG&E's CARE administrative costs were incorporated into base rates on a forecasted basis. Per today's decision, SCE and PG&E are moving to balancing account treatment for their CARE administrative costs. However, we cannot determine from their filings whether they are only transferring incremental costs into the CARE balancing account. Similarly, for SDG&E and SoCal, we cannot ascertain whether the costs they propose to include in their existing CARE balancing accounts are incremental to administrative costs currently provided for in their

---

[12] D.89-09-043, 32 CPUC 2d, 406, 413 (emphasis added). See also our discussion of ratemaking treatment for CARE administrative costs in D.01-06-082, pp. 22-26.

base rates. In addition, we need to ensure that each of the utilities has removed all CARE administrative costs from their base rates.

In no event should the utilities book or recover any administrative costs that are recovered in base rates, per the Commission's longstanding direction. Extending balancing account treatment to SCE and PG&E provides us a unique opportunity to standardize both the recovery and the reporting of CARE administrative costs among all of the utilities to ensure compliance with this policy.

The submittals in this proceeding convince us that the utilities are still not employing consistent accounting conventions for recovering or reporting CARE administrative costs, and that further examination of this issue is warranted in the context of an ex post reasonableness review of PY2002 program expenditures. For this purpose, the utilities are directed to close their books for PY2002 expenditures by March 2003 to facilitate an Energy Division audit of all CARE administrative expenses. The audit should be designed to examine the specific details of the various utility practices, with respect to recording and reporting CARE administrative costs. The audit should include an evaluation of where CARE administrative costs are currently being recovered and present findings on whether or not the costs booked to the CARE account are incremental, and not provided for in the utility's base rates.

Energy Division should also present recommendations on how the utilities should report and recover CARE administrative expenditures on a more consistent basis in the future, and on whether any recorded PY2002 expenditures should be disallowed for cost recovery. Energy Division's audit report is due by August 1, 2003, and should be filed with the Commission's Docket Office in R.01-08-027, with service to all parties to this proceeding and R.01-08-027. Energy Division may perform the audit itself or hire independent contractors for this purpose. We delegate the task of approving the budget and schedule for the audit to the Assigned Commissioner in R.01-08-027. In addition, the Assigned Commissioner should establish a schedule for comments on Energy Division's audit and address other procedural matters related to the reasonableness review of PY2002 program expenditures.

Nothing in today's decision precludes us from initiating additional audits of CARE expenditures after-the-fact, should the Energy Division audit and our ex post review of reasonableness for PY2002 indicate that further examination is needed. The Assigned Commissioner in R.01-08-027, in consultation with Energy Division and the assigned Administrative Law Judge, may initiate such audits by ruling.

3.2 Review of Proposed PY2002 CARE Administrative Budgets

In the following sections we review the utilities' proposed PY2002 CARE administrative activities and budgets for reasonableness on an ex ante basis. In doing so, we consider whether the proposed CARE administrative activities are consistent with the types of outreach activities the Commission authorized in D.01-05-033, whether the level of proposed expenditures is reasonable in light of adopted penetration rate benchmarks, actual expenditure levels during 2001 and the first half of 2002, and other factors.

The PY2002 budgets we establish below are not intended to cap allowable expenditures for each budget category or for CARE administrative costs as a whole. Rather, they are used to establish a reasonable level of CARE revenues to be collected in the balancing account, with cost recovery of actual expenditures subject to our ex post review of actual CARE expenditures. In reporting actual expenditures, the utilities may justify increases in actual costs relative to the adopted budgets by providing reasonable explanations, such as program participation in excess of forecast levels. Similarly, any significant shifts in expenditures across budget categories should be explained during our ex post review.

The utility proposals for CARE activities and budgets for PY2002 are presented in the context of increasing CARE program participation consistent with the Commission's goals. By D.02-07-033, the Commission articulated the goal of reaching 100% of low-income customers who are eligible for, and desire to participate in, the CARE program. For PY2002, the Commission also established minimum benchmarks for the utilities penetration rates, based on the following considerations:

> "…the utilities will not reach this [100%] goal at the same pace, given differences in demographic characteristics and the magnitude of the eligible low-income population within each service territory, as well as differences in where each utility stands today with respect to program penetration. We also recognize that the law of diminishing returns applies to CARE outreach efforts over time, i.e., it becomes increasingly difficult to enroll additional customers, the closer the utility moves towards achieving 100% participation."[13]

By way of context for the discussion that follows, the utilities' CARE penetration rates and enrollment information, minimum benchmarks (target) for PY2002, budget proposals and expenditure history are summarized in the following tables:[14]

---

[13] D.02-07-033, p. 4.

[14] Source for 2002 Year-to-date penetration rate figures: July 21, 2002 Rapid Deployment Reports, Tables 16 and 31. Net enrollment does not include successful re-certifications. PY2002 minimum targets are calculated from the adopted penetration rate targets, as shown in Attachment 2. Expenditure and budget figures are from utility applications and updates. (See Attachment 3.)

CARE PENETRATION RATES

	12/31/00	12/31/01	2002 YTD (6/30/02)	PY2002 Minimum Target
PG&E	47%	53%	60%	63%
SCE	64%	88%	92%	93%
SDG&E	65%	63%	71%	75%
SoCal	67%	60%	68%	70%

NEW CARE ENROLLMENTS (NET)

	2002 YTD (6/30/02)	PY2002 Minimum Target
PG&E	97,646	126,323
SCE	44,829	47,891
SDG&E	19,945	29,301
SoCal	96,973	107,418

CARE Admin. Expenses				
Utility	**Actual PY2001**	**Proposed PY2002**	**Difference**	**2002 YTD thru 6/30/02**
PG&E	$4,820,295	$9,752,386	$4,932,091	$3,040,736
SCE	$2,310,927	$3,800,000	$1,489,073	$868,100
SDG&E	$1,807,462	$3,330,025	$1,522,563	$1,243,660
SoCal	$3,145,346	$5,091,399	$1,946,053	$1,591,785

As indicated above, the PY2002 penetration targets require the utilities to collectively add approximately 310,000 new CARE customers, net of any drop-offs during 2002. However, the net enrollment numbers only tell part of the enrollment process. Each year, the utilities experience attrition from their CARE programs. Some participants move out of the service territory, and are removed from the programs. The majority of attrition occurs during the re-certification process. Every two years, CARE enrollees are sent letters to verify their continued eligibility for the program and are requested to re-enroll by filling out and returning a re-certification application to the utility. If such an application is not returned to the utility, the customer is dropped from the program.

In order for utilities to increase enrollment and penetration rates, they must enroll more CARE customers than they lose through attrition. In the past, attrition has been larger (and sometimes significantly so) than the net enrollment. The total new enrollment that is needed to provide for attrition and increases in enrollment varies each month and is a function of fluctuations in enrollment that occurred several years ago.

Collectively, the utilities propose to nearly double CARE administrative budgets relative to PY2001 authorizations in order to continue the momentum of rapid deployment and increased penetration rates, although the degree of proposed increase varies significantly across utilities. (See Attachment 3.) As discussed in the following sections, most of the increases relate to expanded outreach, processing, certification and verification. We discuss the utilities' proposals, by major budget category, in the following sections.

3.2.1 Outreach

Utility	Actual PY2001	Proposed PY2002	Difference	2002 YTD thru 6/30/02
PG&E	$3,247,915	$7,641,534	$4,393,619	$2,038,000
SCE	$601,743	$1,700,000	$1,098,257	$224,224
SDG&E	$1,120,289	$2,011,074	$890,785	$883,883
SoCal	$1,782,821	$3,087,794	$1,304,973	$1,008,210

As indicated above, PG&E proposes a PY2002 outreach budget that would more than double its PY2001 outreach expenditures, for an increase of approximately $4.4 million. In addition to continuing with the outreach activities that PG&E ramped up during the latter half of 2001, PG&E describes several new outreach initiatives it plans to implement during PY2002 to expand CARE enrollments. These include a workplace initiative focusing on reaching eligible customers through their place of employment, outreach targeted to non-profit housing facilities, increased community outreach events and rural canvassing through PG&E's network of capitation contractors. PG&E's proposed budget under the outreach category includes the costs of producing new application forms for 2002 reflecting new income guidelines placed into effect June 1, 2002, providing return postage for mailed applications per D.00-09-036, and including applications and notices in bills prior to peak-billing months.

For 2002, SCE proposes to increase spending on outreach by approximately $1 million relative to 2001. SCE explains that there are two main reasons behind the increase in this budget category. First, SCE has started recording information technology expenditures associated with the capitation fee program to the outreach budget category, instead of the general administration category. Second, SCE intends to undertake additional outreach aimed at multi-lingual communities and hard-to-reach rural areas. This includes targeted and ethnic media outreach to reach customers that reside in specific geographic areas where CARE enrollment is low relative to potential. The advertising will be communicated in eight languages, and outreach campaigns will be supported with in-language brochures, flyers and fact sheets. SCE also plans to expand its grass roots outreach efforts to senior centers, homeowner’s associations, low-income apartment complexes, among others, in hard-to-reach areas.

SDG&E proposes an increase in its PY2001 outreach budget of approximately $891,000 for a combination of expanded multi-lingual media campaigns, additional capitation contractors, outreach at the local community level and staffing for SDG&E’s call centers to support the CARE program. SoCal proposes a increase of $1.3 million, attributable primarily to expanding the number of capitation contractors and conducting targeted, multi-lingual media outreach.

This cost category also includes various outreach monitoring activities, such as tracking the language preferences of callers to the CARE number, conducting focus groups with low-income customers and capitation contractors, tracking the various application types (e.g., those signed up by capitation contractors, LIEE program contractors, etc.), and compiling information on the specific geographic location of enrollees off the applications, by county.

As discussed above, each of the utilities plans to utilize a mix of CARE outreach approaches in order to continue to increase their penetration rates during PY2002. All of the proposed activities are consistent with the types of rapid deployment outreach efforts the Commission authorized in D.01-05-033. In addition, the utilities indicate that they continue to fine tune their mix of outreach strategies based on experience to date with rapid deployment, including expanding those approaches that seem to be working best to enroll hard-to-reach eligible customers.

When we have completed our evaluation of rapid deployment efforts and gain experience with automatic enrollment, we can augment the utilities' efforts to identify and implement the most effective CARE outreach practices. We will be carefully examining this issue in the future, once automatic enrollment is up and running. As we stated in D.02-07-033, we plan to evaluate future program budgets and funding levels, particularly for CARE outreach efforts, in light of the adopted automatic enrollment program. We expect that the need for extensive CARE outreach efforts is likely to decrease once that program is underway.[15] We have also directed the utilities to conduct a program process evaluation that will provide valuable information on which CARE

[15] D.02-07-033, p. 42, 48.

outreach efforts have been the most effective during rapid deployment. That evaluation should be completed in early 2003.[16]

In the meantime, authorizing the utilities to proceed with their proposed CARE outreach strategies is an appropriate "stay-the-course" approach to rapid deployment until we have completed our evaluation of rapid deployment efforts and have gained experience with automatic enrollment. For the purpose of maintaining the rapid deployment efforts adopted in D.01-05-033 through 2002, we find the types of outreach activities proposed by the utilities in their application to be reasonable.

In terms of proposed budget levels, however, we note that PG&E and SCE have requested amounts that far exceed what it appears they can realistically spend during PY2002. For example, PG&E's proposed budget for PY2002 is almost four times the amount PG&E has actually spent during the first half of the year. Apparently PG&E stopped all new PY2002 outreach after its SBX1-5 funding was exhausted earlier this year, but resumed those outreach activities after the May 16th PHC.[17] PG&E does not expect to spend the entire proposed PY2002 outreach budget this year, but requests that any unspent PY2002 outreach funding be carried over into PY2003.[18]

SCE's actual outreach expenditures at mid-year are less than one-seventh of the amount of its requested PY2002 budget. SCE provides no

---

[16] Reporter's Transcript, July 22, 2002 PHC in R. 01-08-027, pp. 118-120, 127.

[17] Reply Of Pacific Gas And Electric Company to Protests To Application, dated May 13, 2002, p. 2.

[18] PG&E CARE PY2002 Supplemental submission, June 18, 2002, conference call between PG&E, SCE, SDG&E, SCE Energy Division and ORA on July 10, 2002.

explanation for this divergence between expenditures to date and proposed budgets for the full year.

We find PG&E's suggestion that we simply authorize large increases to outreach budgets—and allow for carryovers into PY2003—to be unreasonable. CARE rates are set based on the adopted budgets. Even though these rates are subject to change, based on the utilities' actual expenditures and the results of our ex post reasonableness review, the amount we budget on a prospective basis should be justified based on the types of authorized activities and realistic expectations about the amounts that can be expended on them over the year. Moreover, as discussed above, it may not be "business as usual" for rapid deployment outreach activities in PY2003, as we implement automatic enrollment. Therefore, we believe it is in the ratepayers best interest to establish reasonable PY2002 budget levels, without anticipating large carryovers.

We note that all of the utilities have been able to continue the rapid deployment pace of increasing CARE penetration during the first half of 2002, as indicated in the tables above. PG&E and SCE have done so with expenditures that are much less than the amounts they are requesting for the full year. We will adjust the proposed PY2002 budgets for these utilities downwards to better reflect the rate of expenditures during the first half of the year, while still allowing for an acceleration of outreach activities during the second half of the year.

SoCal's proposed annual budget also appears inflated when compared against expenditures to date. SoCal's actual outreach expenditures at mid-year are approximately one-third of its proposed PY2002 budget. However, in its comments,[19] SoCal explains that it scheduled multi-lingual media outreach campaigns for July and September that are not reflected in the expenditures booked to the account. In addition, from April through July, SoCal added seven new capitation contractors that are expected to increase associated capitation costs during the second half of the year, in addition to expected increases in general outreach costs. We have reviewed this supplemental budget information and find SoCal's requested budget to be reasonable.

In consideration of the minimum penetration rate targets established for PY2002, we adopt budgets that allow for increases over 2001 expenditures:

PG&E	$5,095,000
SCE	840,840
SDG&E	2,011,074
SoCal	3,087,794

3.2.2. Processing, Certification and Verification

Utility	Actual PY2001	Proposed PY2002	Difference	2002 YTD thru 6/30/02
PG&E	$948,103	$1,320,000	$371,897	$514,406
SCE	$329,190	$780,000	$450,810	$208,319
SDG&E	$193,318	$212,235	$18,917	$77,606
SoCal	$845,048	$1,128,472	$283,424	$306,413

Under this budget category, the utilities include the costs associated with processing new applications, re-certifying applications every two years and conducting post-enrollment eligibility verification for a sample of enrolled customers. The utilities all project that this category of costs will increase for

[19] Comments of SDG&E and SoCal on Draft Decision, p. 2.

PY2002 as the pool of new and existing enrollees increase. PG&E estimates that it will need to process an average of 42,000 new applications per month, based on first quarter experience, and a minimum of 271,155 re-certification applications during PY2002, based on the number of new enrollees that were signed up in 2000. SDG&E states that it has experienced record numbers of new CARE applications (over 39,000) during the first quarter of 2002, which it expects to continue through 2002. SoCal also projects higher processing costs for 2002 based on the large number of new enrollments during the first quarter. SCE expects that it will experience record high re-certifications and verifications during 2002 due to the high penetration rate it achieved with its CARE program during 2000 and 2001.

All of the utilities report that they have added staff or contractors to process the increases in applications and re-certifications experienced to date during 2002. They also plan to use fully translated materials in non-English languages for the applications, re-certification and verification mailings in order to increase net program enrollment from the hard-to-reach customer base. Attachment 4 presents a summary of the languages each utility plans for their CARE re-certification letter in 2002 and other efforts to reach non-English speaking participants.

The upward trend in penetration rates and the need for continued re-certification and verification activities during 2002 appear to warrant increasing the budgets for all the utilities, as proposed. However, here again, we cannot account for the differences between the level of proposed budgets and actual expenditure levels. Although we do not expect expenditure outlays under this category to occur at a constant rate over the year, we find it difficult to reconcile the fact that SCE and SoCal have spent only about one-fourth of their respective proposed PY2002 budgets as of mid-year. They have given no explanation for this discrepancy in their filings.[20] PG&E's and SDG&E's actual expenditures to date, on the other hand, are more in line with their proposed budgets. We adjust the budgets of SCE and SoCal to better reflect the rate of expenditures during the first half of the year, while still allowing for an acceleration of processing, re-certification and verification procedures during the second half.

We also note that none of the utility filings account for the impact of automatic enrollment on this cost category. We expect that the program adopted in D.02-07-033 will decrease the costs associated with this budget category in several ways. First, by definition, the new CARE participants enrolled through automatic enrollment will not submit applications to the utility for processing.

Second, the decision allows for re-certification of those customers through new or continued participation in the partner agency programs, which is likely to simplify the involvement of utility administrators in re-certification and reduce the associated costs. Moreover, as the Commission states in D.02-07-033, automatic enrollment may eventually allow for a completely paperless, electronic

---

[20] In its comments on the draft decision, SoCal argues that the full amount it requests should be authorized because (1) it has made a number of expenditures in this category that are not yet reflected in the balancing account and (2) it anticipates an increase in the number of applications processed due to additional outreach efforts in July and September. (Comments of SDG&E and SoCal on Draft Decision, p. 3.) However, SoCal provides no figures to support a budget level that is four-times greater than the amount it has booked to the account as of the end of June. Moreover, as discussed in Section 3.2. above, we give each utility the opportunity to justify expenditures that exceed budget authorizations by providing reasonable explanations. This should address SoCal's concern about the anticipated increase in applications processed by year end.

re-certification process that is accomplished through data matching procedures at the Commission.[21] In addition, the decision directs utilities to exclude automatic enrollment customers from any random post-enrollment verification.[22]

In view of our recent decision on automatic enrollment, the utilities should anticipate reductions in the costs of application processing, certification and verification beyond PY2002 by maintaining maximum flexibility to respond to such changes as we proceed with automatic enrollment. With this caveat, we adopt the following PY2002 budgets for processing, certification and verification budgets, by utility:

PG&E	$1,320,000
SCE	520,798
SDG&E	212,235
SoCal	766,030

3.2.3. Billing Systems/Programming

Utility	Actual PY2001	Proposed PY2002	Difference	2002 YTD thru 6/30/02
PG&E	$16,938	$20,000	$3,062	$210
SCE	$0	$500,000	$500,000	$76,253
SDG&E	$315	$35,000	$34,685	$0
SoCal	$181,444	$596,898	$415,454	$235,304

The budget proposals for this cost category are strikingly different across utilities. SoCal proposes an increase of approximately $415,000 over

---

[21] D.02-07-033, p. 39.

[22] *Ibid.* p. 40.

PY2001 expenditures. SoCal argues that this increase is needed in order to expand the number of data fields in its billing system for CARE monitoring efforts and enhance its ability to comply with Commission decisions. PG&E estimates that improvements to its CARE billing and tracking systems will cost approximately $280,000 over 2001 levels, although delays in rolling out its new billing system defers most of this increase into 2003. SDG&E notes that it did not charge expenses to this category in 2001 and identifies $35,000 in CARE billing and programming costs for 2002. SDG&E states that this amount reflects the costs of modifications made to its mainframe system in an effort to track the origin of CARE applications being submitted.

For PY2001, SCE included all bill system programming costs under general administration. In its application and June 4, 2002 update, SCE included these costs under the processing, certification and verification cost category. With the July 29 submittal, SCE now includes a bill system programming budget of $500,000 for PY2002, and reduces its proposed budget for processing, certification and verification from $1,280,000 to $780,000 commensurately.

This wide divergence in cost estimates and accounting practices for bill system programming raises the issue of whether reasonable, consistent conventions are being applied by the utilities in booking and recovering these types of expenditures. The budget proposals submitted by the utilities in this proceeding persuade us that further examination of the amounts booked under this and other cost categories are necessary. For the purpose of establishing the CARE rate, we will use the levels proposed for PY2002 for this cost category. However, cost recovery for this and other budget categories will be subject to Energy Division’s audit and our ex post reasonableness review.

3.2.4. Measurement and Evaluation

Utility	Actual PY2001	Proposed PY2002	Difference	2002 YTD thru 6/30/02
PG&E	$1,693	$266,600	$264,907	$0
SCE	$5,004	$80,000	$74,996	$2,502
SDG&E	$5,842	$301,366	$295,524	$7,246
SoCal	$0	$55,800	$55,800	$0

The proposed increases in this budget category reflect the costs of increased reporting requirements and studies under the program. PG&E, SoCal and SDG&E's proposed budgets include their portion of the Needs Assessment Study and associated budget authorized under Resolution E-3646. Resolution E-3646 adopted initial funding for Phase 2 of the Needs Assessment Study at a total of $888,600, allocated to the utilities as follows: PG&E—30%, SDG&E—15%, SCE—30% and SoCal—25%. SCE's proposal did not include costs for funding Phase 2 of the Needs Assessment, and SCE's budget need to be adjusted accordingly.[23]

The budget proposals under this category recognize that the costs of studies and reports associated with our ongoing monitoring and evaluation of the low-income assistance program have increased since 2001, when rapid deployment was initiated. Most of the study costs will be incurred during the second half of this year as Phase 2 of the Needs Assessment gets underway. The utilities' proposed budgets, with the exception noted above, provide a reasonable estimate of the increased costs. However, there may be further increases to this budget category that will be necessary before the end of PY2002. For example, in D.02-07-033, we directed the utilities to update their data on eligible customers

---

[23] SCE's Comments to Draft Decision, pp. 2-4.

using the 2000 Census data that will be available this fall, and report the results in their January 2003 status report.[24] Only SCE specifically states that the cost of this update is included in its budget estimates for measurement and evaluation. Moreover, the budget adopted in Resolution E-3646 for the Needs Assessment Study may need to be updated to reflect the current scope of Phase 2 work as set forth in the Phase 1 report, which is pending before the Commission.

For SCE, we increase the PY2002 budget for this cost category from $80,000 to $344,000 to reflect the $264,000 in Phase 2 Needs Assessment costs allocated per Resolution E-3646. With that one modification, we adopt the budget estimates proposed by the utilities. We do so with the caveat that actual expenditures, as tracked in the utilities' balancing accounts, will be reviewed for consistency with Commission's directives regarding the scope and associated budgets for evaluation activities that are initiated during 2002. In their May 1, 2003 submittals, the utilities should break down the actual expenditures under this budget category by specific study in order to facilitate our ex post review.

3.2.5. Regulatory Compliance

Utility	Actual PY2001	Proposed PY2002	Difference	2002 YTD thru 6/30/02
PG&E	$68,458	$100,000	$31,542	$128,468
SCE	$60,000	$80,000	$20,000	$30,000
SDG&E	$45,205	$86,286	$41,081	$30,324
SoCal	$107,062	$67,045	($40,017)	$35

The utilities describe the expenditures under this category as including direct labor costs for complying with the Commission's reporting requirements, the preparation of applications, advice filings, tariff revisions,

[24] D.02-07-033, Ordering Paragraph 4.

comments and reply comments on Commission decisions and reports, and attendance at working group meetings, public input meetings and preparation for hearings.

PG&E states that the main driver of its proposed increase of approximately $32,000 over 2001 is the funding required for increased workload to support new projects related to automatic enrollment and the Needs Assessment Study, as well as increased compliance activities associated with the Low-Income Oversight Board (LIOB).[25] SCE projects increases of $20,000 in regulatory compliance costs. SoCal and SDG&E regularly file regulatory compliance submittals jointly as Sempra utilities. Their joint budget for PY2002 is comparable to their PY2001 actual expenditures.

Our review of this cost category raises similar concerns expressed above, i.e., that the utilities may be including costs in this budget category in an inconsistent manner and that these costs may not be incremental to CARE. In particular, SCE states that it does not bill the cost of legal assistance from SCE's Law Department to its CARE program. While the other utilities do not specifically address this issue, it may be a factor contributing to the differences in the regulatory compliance expenditures in 2001 and proposed budgets for PY2002 across the utilities. For example, SDG&E and SoCal have a combined proposed budget that is almost 2 ½ times the level proposed by either PG&E or SCE in 2002. Similarly, the actual expenditure levels for PY2002 to date vary dramatically across utilities—with PG&E spending at the half year mark at

[25] PG&E's Application, April 18, 2002, p. 1-6. See also reference to these increases in PG&E's June 4, 2002 Supplemental Budget Information, p. 7.

$128,468, almost 30% higher than its proposed PY2002 annual budget--and SoCal's expenditures a mere $35.

For the purpose of establishing the CARE rate, we will use the utilities proposed PY2002 budgets. In its comments on the draft decision, SoCal explains that it has only recorded $35 to date in this category due to internal posting and recording procedures issues that are currently being worked out. SoCal anticipates that these issues will be resolved in the next few months and that it will be booking to this cost category the full proposed amount.[26] We reiterate the requirement that all CARE costs booked to the CARE balancing account, including those for regulatory compliance, be incremental. Recovery of actual expenditures, as tracked in the utilities' balancing accounts, will be subject to the results of Energy Division's audit and our ex post reasonableness review.

3.2.6. General Administration

Utility	Actual PY2001	Proposed PY2002	Difference	2002 YTD thru 6/30/02
PG&E	$272,879	$321,552	$48,673	$305,672
SCE	$862,854	$464,500	($398,354)	$232,951
SDG&E	$189,185	$190,174	$989	$47,135
SoCal	$24,794	$51,440	$26,646	$1,021

The utilities describe general administration as including office supplies, market research projects, program management labor as well as information technology costs. As noted above, SCE has removed all bill system programming costs from this category, which accounts for the reduction in this category relative to 2001. PG&E is requesting an increase in this budget category to support the increases in capitation and outreach activities.

[26] Comments of SDG&E and SoCal on Draft Decision, p. 4.

SoCal's proposes a budget for general administration that is over twice the level expended during 2001. Moreover, SoCal has actually expended a very small fraction (1/50th) of its proposed budget as of mid-year. SDG&E requests a very minor increase in its general administration budget for PY2002—but also has spent less than expected (approximately one-fourth) by mid-year, relative to its annual budget.

Here again, we cannot determine the reasonableness of the utilities PY2002 budget proposals, particularly when examined in the context of what has actually been spent under the category by mid-year. While some of the costs associated with general administration for SoCal and SDG&E may be booked elsewhere, it is impossible to determine from the utility filings. In their comments, SoCal and SDG&E indicate that their expenditure numbers are "skewed by internal utility accounting issues" that they are working to resolve.[27] However, that general disclaimer does not provide us with sufficient information or rationale to adopt their proposed PY2002 budgets, particularly considering the large increases that SoCal is requesting.

PG&E's and SCE's expenditures to date are in line with their proposed budgets and we will adopt their proposed budgets for this expense category. Since SDG&E and SoCal have not justified any increases to their general administration budgets, but have provided an explanation as to why booked expenditures currently diverge so noticeably from projected costs, we will adopt a budget that reflects the level of actual PY2001 expenditures. This is another cost category that will require particular scrutiny by Energy Division as

[27] Comments of SDG&E and SoCal on Draft Decision, pp. 4-5.

it performs its audit. Energy Division should also review the resolution of internal accounting issues that SDG&E and SoCal refer to in their comments. For the purpose of establishing the CARE rate, we adopt the following budgets:

PG&E	$321,552
SCE	464,500
SDG&E	189,185
SoCal	24,794

3.2.7. Indirect Costs

Utility	Actual PY2001	Proposed PY2002	Difference	2002 YTD thru 6/30/02
PG&E	$0	$0	$0	$0
SCE	$257,495	$0	($257,495)	$82,185
SDG&E	$81,926	$416,058	$334,132	$150,336
SoCal	$0	$0	$0	$0

Only SCE and SDG&E report expenditures and only SDG&E submitted a budget for indirect costs. SDG&E reports that this category covers benefits and insurance costs, including vacation, sick leave, incentive pay, vehicle utilization, payroll taxes, workman's compensation, and public liability and property damage.[28] SDG&E estimates indirect costs by applying a 55% factor to all of its projected 2002 CARE labor costs. However, SDG&E apparently does not include pension costs under this category. Rather, these costs are recovered in base rates.

SCE does not budget or record indirect costs under the CARE program, but reports that it has expended $82,185 during the first half of 2002 for

[28] SDG&E phone response to Energy Division inquiry, July 25, 2002.

pensions and benefits. These costs are apparently recovered in SCE's base rates. SCE does not indicate where it accounts for insurance costs. SoCal recovers the costs of pensions, benefits and insurance through base rates. PG&E, on the other hand includes the pensions, benefits and insurance as employee labor overhead throughout all the other CARE administrative cost categories.[29]

We will authorize the proposed PY2002 budgets for indirect costs for SDG&E, subject to the Energy Division audit and our ex post reasonableness review. Energy Division should determine where these costs are being booked either within the CARE budget or in base rates, what incremental indirect costs should be attributed to the CARE program, and how the utilities should account for the CARE-related portion of these costs in a consistent manner in the future.

3.2.8. Other Expense Categories

There are no pilot programs authorized during PY2002, which results in reductions in that budget category relative to 2001 expenditures. (See Attachment 3.) The utilities also budget amounts for Energy Division staff requirements associated with the low-income assistance program, and we expect those requirements to increase during the second half of 2002. The utilities' proposed budgets for these requirements appear reasonable at this time, with the exception of SCE's budget. As explained by SCE in its comments, its budget estimate assumed that SCE would receive the full amount of SBX1 5 funds and then reimburse Energy Division for staff requirements. Instead, those reimbursements were taken "off the top."[30] We reduce the budget from $195,500

---

[29] PG&E July 30, 2002 response to Energy Division's data request.

[30] SCE Comments on Draft Decision, p. 5.

to $82,700 to correct this oversight. This revised figure matches PG&E's budget for this cost category, which is appropriate given that both SCE and PG&E each are responsible for 30% of such costs.

The utilities should track all costs associated with Energy Division staff requirements, including the audit we authorize today, under this cost category in the CARE balancing account. Energy Division audit costs will be reimbursed along with other CARE-related Energy Division expenses.

As indicated in Attachment 3, the utilities do not propose any amounts in their PY2002 budgets for the Low Income Advisory Board (LIAB) and its successor, the LIOB, with the exception of SoCal. PG&E and SDG&E initially included $100,000 and $47,832 in proposed funding under this category, respectively. These amounts were reduced to zero in subsequent submittals. SCE included a line item for the LIOB in its application, but indicated that the amount of the cost was to be determined and budgeted a zero amount.

The issue of funding for the LIOB is currently before the Commission in proposed Resolution No. L-301.[31] In addition to the uncertainty surrounding funding the Board, the LIOB has yet to prepare a budget for PY2002. However, the LIOB has incurred expenses already this year, and will surely meet multiple times again before the end of the year. Until the funding issue is resolved and a budget is adopted for the LIOB, it is reasonable to set aside utility funds for the LIOB. Without better indicators for determining the amount to set aside, such as an adopted budget for the LIOB, we will use the

---

[31] Proposed Resolution No. L-301: Low Income Oversight Board Funding, Agenda #908, August 22, 2002.

original estimates provided by the utilities as a proxy for the LIOB costs in 2002, except for SCE who didn't provide an estimate.

Pursuant to Resolution E-3585, SCE and PG&E shared the same amount of the former LIAB's costs. SCE did not report its share of LIAB expenses separately in its CARE annual reports submitted on May 1st each year during the period when the LIAB was meeting. We assume that SCE recorded these expenses in other CARE cost categories in prior years and therefore, they may be reflected, at least partially in SCE's other proposed budget areas. Due to this uncertainty it is reasonable to budget for SCE half of what we are adopting for PG&E for LIOB expenses.

For the purpose of establishing the CARE rate, we will adopt the amounts that PG&E, SDG&E and SoCal submitted in their applications, and budget $50,000 for SCE. The utilities should book actual expenditures that reflect the Commission's final determination in Resolution No. L-301. Accordingly, the PY2002 LIAB budget (which should be renamed LIAB/LIOB for PY2002) is as follows:

PG&E	$100,000
SCE	50,000
SDG&E	47,832
SoCal	35,000

3.3. Adopted PY2002 CARE Budgets

We adopt the PY2002 CARE budgets presented below**.** These adopted budgets reflect the adjustments to the CARE administrative cost categories described in this decision. They also reflect the utilities' current estimates of CARE rate subsidy costs during PY2002.

AUTHORIZED PY2002 CARE BUDGETS				
Cost Category	**PG&E**	**SCE**	**SDG&E**	**SoCal**
Outreach	$ 5,095,000	$ 840,840	$ 2,011,074	$ 3,087,794
Processing/Certification/Verification	$ 1,320,000	$ 520,798	$ 212,235	$ 766,030
Billing/Programming	$ 20,000	$ 500,000	$ 35,000	$ 596,898
Measurement/Evaluation	$ 266,600	$ 344,000	$ 301,366	$ 55,800
Regulatory Compliance	$ 100,000	$ 80,000	$ 86,286	$67,045
General Administration	$ 321,552	$ 464,500	$ 189,185	$ 24,794
Indirect Costs	$0	$82,700	$ 416,058	$0
Energy Division	$ 82,700	$ 195,500	$ 30,000	$ 68,950
LIAB/LIOB	$ 100,000	$50,000	$ 47,832	$ 35,000
Total Administration	$ 7,305,852	$ 3,078,338	$ 3,329,036	$ 4,702,311
CARE Subsidy	$ 125,000,000	$ 93,400,000	$ 25,568,477	$ 42,533,000
Total CARE Program	$ 132,305,852	$ 96,478,338	$ 28,897,513	$ 47,235,311

The utilities will use these budgets to establish the CARE surcharge rate in the appropriate ratesetting proceedings, as described in Section 3.4 below. By today's decision, all four utilities are authorized balancing account treatment for CARE administrative costs, consistent with SBX2 2. Cost recovery is subject to reasonableness review process described in this decision.

Today's adopted annual budgets and the resulting CARE surcharge rate do not include costs associated with implementing the data exchange and other implementation tasks for the automatic enrollment program we adopted in D.02-07-033. As explained in that decision, these costs are difficult to estimate until we implement automatic enrollment. Moreover, other CARE administrative cost categories are likely to decrease due to automatic enrollment, and we cannot predict the net effect on CARE budgets. Per D.02-07-033, the utilities should separately track the costs associated with the automatic enrollment program. We direct the utilities to work with Energy Division during program implementation to establish consistent accounting conventions for this purpose.

The annual CARE budgets adopted today are effective until further Commission order. We plan to reassess today's adopted budgets during 2003 in light of the impact that automatic enrollment has on CARE enrollments and overall administrative costs.

SDG&E and PG&E will need to reallocate their CARE administrative expenditures between their gas and electric departments to reflect our adopted budgets. We direct them to file Advice Letters for this purpose.

3.4. Ratemaking Treatment

All of the utilities receive balancing account treatment to recover the cost of the CARE rate subsidy, which is currently 20% of the customer's bill. In general, the balancing account treatment works as follows: The Commission establishes a rate to recover forecasted CARE subsidy costs, and then authorizes the recovery of any difference between actual and forecasted costs in the utility's next ratesetting proceeding, e.g., the Rate Adjustment Proceeding (RAP) on the electric side, the Biennial Cost Adjustment Proceeding (BCAP) and non-BCAP year adjustment proceedings on the gas side. The costs associated with this CARE subsidy are recovered through the CARE rate surcharge on an automatic pass-through basis, i.e., they are not subject to reasonableness review.[32] For those utilities that have balancing account treatment for their CARE administrative costs, the process is similar. However, cost recovery for CARE administrative costs are subject to reasonableness review, as described in this decision.

---

[32] CARE customers also receive an exemption from the 1 cent and 3 cent electric surcharges authorized by the Commission in 2001 to assist the electric utilities in recovery of power procurement costs, as well as exemptions from the CARE component of the public purpose charges. However, these exemptions are not recovered via the CARE surcharge, and are therefore not reflected in the budget estimates for that purpose.

3.4.1. SDG&E and SoCal

SDG&E and SoCal are currently authorized balancing account treatment for their CARE administrative expenses, and propose no changes to ratemaking treatment in this proceeding. Neither utility is subject to a rate freeze.[33] SDG&E plans to file for a rate change in its upcoming RAP to address CARE and other balancing account issues related to electric service, including the amortization of SDG&E's projected CARE undercollections.[34]

On the gas side, Public Utilities Code Section 890(e) requires the Commission to annually establish a separate surcharge to recover the costs of low-income assistance programs (including CARE) and non-low income energy efficiency programs. In Resolution G-3329 dated December 11, 2001, the Commission adopted surcharge rates for each of the gas utilities that became effective on January 1, 2002. The amortization of the prior year's balance is a component of determining the CARE-related revenue requirement in setting the gas PPP surcharge. SDG&E and SoCal will submit their proposed 2003 surcharge rates in October 2002, requesting that the rates become effective with other year-end consolidated gas rate updates on January 1, 2003.

---

[33] SDG&E was subject to the electric rate freeze provisions of AB 1890 until it recovered its transition costs pursuant to the provisions of the statute.

[34] By letter dated July 18, 2002, SDG&E withdrew its proposal to have its proposed electric rate change effective as part of this decision, and indicated its intent to incorporate that change into its RAP application for year-end rate changes.

3.4.2. PG&E

The rate freeze provisions under AB 1890 have expired[35] and PG&E will be filing a general rate case to establish its base rates for the future. We therefore examine PG&E's ratemaking proposal in this proceeding from the perspective that PG&E is similarly situated as SDG&E—i.e., the statutory rate freeze is over.

To implement the provisions of SBX2 2, PG&E requests that we approve the balancing account treatment it has proposed in Advice Letter (AL) 2352-G/ 2175-E. As described in that filing, PG&E proposes to (1) remove the authorized annual electric CARE administrative costs from its Transition Revenue Account adopted Public Purpose Program revenues, (2) remove the adopted annual gas CARE administrative costs from gas base revenues and (3) begin tracking actual CARE administrative costs in CARE balancing accounts. We note that this advice letter has not been protested, and that the proposed tariffs and ratemaking treatment contained therein are consistent with those currently in place for SDG&E. For these reasons, we approve PG&E's ratemaking proposal in this proceeding and, by extension, AL 2352-G/2175-E.

PG&E should also submit its proposed 2003 gas surcharge rates in October 2002, requesting that the rates become effective with other year-end consolidated gas rate updates on January 1, 2003. As discussed in this decision, cost recovery of all amounts booked to the CARE administrative cost balancing account is subject to reasonableness review.

---

[35] D.02-01-001 ordered the Commission to revisit the end of the rate freeze. However, whether the rate freeze ended prior to the statutory deadline is irrelevant for our purposes in this decision.

3.4.3. SCE

Like PG&E, SCE currently recovers CARE administrative costs on a fixed forecast basis—irrespective of actual expenditures. In addition, however, SCE's rates are subject to the rate freeze and rate recovery provisions of the October 2, 2001 Settlement Agreement with the Commission (Settlement Agreement).[36] Among other things, the Settlement Agreement freezes electric rates for two years at a level that reflects the electric rates frozen per AB 1890 plus the 4 cent electric surcharge levels authorized by the Commission in 2001. The Settlement Agreement establishes a Procurement Related Obligations Account (PROACT) and Settlement Ratemaking Balancing Account (SRBA) to accomplish the following ratemaking structure: SCE's bill revenues, subject to the rate freeze provisions, are booked to the SRBA. SCE subtracts "recoverable costs" against these revenues, including the most recently adopted CARE administrative budget.[37]

What remains in the SRBA after the subtraction of costs from bill revenues is "surplus." This surplus is available to reduce the balance in the PROACT, which was established at $3.6 billion under the terms of the Settlement Agreement. If a balance remains in the PROACT account at the end of the rate repayment period,[38] SCE can spread that balance over an additional two years (to

[36] Our use of the term "rate freeze" refers to the fact that there are certain conditions that must be met for "Settlement Rates" to increase or decrease during the "Repayment Period." (Settlement Agreement, p. 9.)

[37] SCE's last approved CARE administrative budget was set forth in AL 1484-E, approved by the Commission on November 15, 2000.

[38] The rate repayment period began on September 1, 2002 and extends until the date in which the PROACT balance is recovered or December 31, 2003, whichever comes first.

2005) and recover the balance via a separate surcharge rate above the Settlement Agreement rates or above new base rates established in SCE's next general rate case, whichever are in effect at the time.[39]

Attachment 5 presents an illustration and numerical example of how PROACT ratemaking works, and SCE's proposed ratemaking treatment of CARE-related expenditures. As indicated in Attachment 5, the impact of CARE subsidies is to reduce bill revenues and the impact of CARE administrative costs is to increase recoverable costs. Both serve to reduce the surplus available to reduce the PROACT amount. SCE proposes to remove all amounts in excess of current CARE surcharge collections from the monthly surplus calculation that is applied to the PROACT account, for both CARE administrative costs and (on the revenue side) CARE subsidies, and book those amounts into a separate CARE balancing account. The undercollected balance recorded in the CARE balancing account would be recovered via a separate surcharge after the PROACT repayment period. SCE requests this ratemaking treatment so that the surplus and PROACT balance would not be impacted by the large undercollections SCE is experiencing due to the increase in CARE eligibility, outreach and enrollments.

We believe that SCE's ratemaking proposal is consistent both with the intent of SBX2 2 and with the rate recovery provisions of the Settlement Agreement. Consistent with SBX2 2, SCE is requesting the Commission to switch to a balancing account approach for CARE-related administrative expenses. At the same time, by booking only the "excess" expenditures in the balancing account, and leaving CARE authorized revenue requirements in the SRBA, SCE

[39] See PHC Reporter's Transcript, pp. 22-27.

does not modify the intent of the Settlement Agreement that the authorized level of CARE administrative costs be included in the calculation of surplus.

Moreover, as SCE points out, by removing increases in actual CARE costs above authorized amounts from the SRBA, the net effect would be the same, i.e., the proposed ratemaking treatment would not affect the overall level of surcharge that the Settlement Agreement provides for after the payment recovery period. The only difference is that, under SCE's proposal, those increases would be captured in two separate components: a CARE surcharge rate and a procurement-related surcharge rate.

In addition, this type of ratemaking approach is identical to the Commission's adopted ratemaking treatment for similar types of program costs that are subject to the Settlement Agreement. By D.02-04-026, the Commission ordered the utilities to update baseline allocations and implement changes to the application and re-certification procedures for the medical baseline program, including the provision of all medical baseline forms in non-English languages. In doing so, the Commission stated: "we affirm that utilities may receive reasonable cost recovery for the costs caused by the changes we order to the medical baseline program."[40] In addition, the Commission directed the utilities to establish a balancing account to record undercollections in revenues and increases in administrative costs resulting from that decision, and directed that any costs recording in the accounts would be recoverable after the end of the rate freeze, consistent with the procedures adopted in D.01-07-028.[41]

[40] D.02-04-026, p. 35.

[41] D.02-04-026, Ordering Paragraph 11.

To implement those directives, SCE filed AL 1620-E on May 9, 2002 requesting that the baseline allocation-related undercollections and increased program administrative costs be removed from the SRBA in a manner identical to its proposal in this proceeding. AL 1620-E was approved on June 5, 2002.

For the reasons stated above, we find SCE's ratemaking proposal to be reasonable, and will adopt it. SCE should file an Advice Letter implementing its proposal within 20 days from the effective date of this decision.

Need for Expedited Consideration

Rule 77.7(f)(9) of the Commission's Rules of Practice and Procedure provides in relevant part that:

> "...the Commission may reduce or waive the period for public comment under this rule...for a decision where the Commission determines, on the motion of the party or on its own motion, that public necessity requires reduction or waiver of the 30-day period for public review and comment. For purposes of this subsection, "public necessity" refers to circumstances in which the public interest in the Commission adopting a decision before expiration of the 30-day review and comment period clearly outweighs the public interest in having the full 30-day period for review and comment. "Public necessity" includes, without limitation, circumstances where failure to adopt a decision before expiration of the 30-day review and comment period...would cause significant harm to public health or welfare. When acting pursuant to this subsection, the Commission will provide such reduced period for public review and comment as is consistent with the public necessity requiring reduction or waiver."

We balance the public interest in quickly addressing these low-income assistance matters against the public interest in having a full 30-day comment cycle on the decision draft. We conclude that the former outweighs the latter. A reduced period for review and comment balances the need for parties' input with the need for timely action. Comments were filed on August 19, 2002 by

PG&E, SCE and jointly by SDG&E and SoCal. As discussed in this decision, we make certain modifications to the draft decision in response to SCE's, SDG&E's and SoCal's explanations concerning expenditure levels and budget requests for certain cost categories.

In its comments on the draft decision, PG&E urges us to adopt a very specific timeline and procedure for the reasonableness review of PY2002 CARE program expenditures. We clarify that the schedule and procedures for such review will be established by Assigned Commissioner's ruling when Energy Division's audit is completed.

Reply comments were due on August 26, 2002. The Commission did not receive any reply comments.

Findings of Fact

1. SBX2 2 requires that the utility's actual expenditures on CARE administrative costs be recovered through a balancing account, subject to the Commission's determination that those costs are reasonable.

2. SBX2 2 requires changes to the ratemaking treatment of CARE administrative costs for PG&E and SCE, since they currently recover these costs on a fixed forecasted basis.

3. Under the Commission's ratemaking treatment for CARE-related expenditures, as adopted in D.89-09-040, CARE subsidy costs are recovered as a direct pass-through, i.e., without a reasonableness review. Nothing in SBX2 2 requires that we modify this treatment.

4. A "before the fact" (ex ante) review of proposed CARE administrative activities and expenditures ensures that the amount of revenues collected into the balancing account is reasonable.

5. An "after the fact" (ex post) review of CARE administrative costs ensures that actual expenditures and administrative activities, which may differ from

those authorized by the Commission in establishing the CARE rate, are reasonable.

6. PY2002 CARE budgets should reflect CARE administrative activities that are consistent with the types of outreach activities the Commission authorized in D.01-05-033. They should be reasonable in light of adopted penetration rate benchmarks, actual expenditure levels during 2001 and the first half of 2002, and other considerations. They should also be based on realistic expectations about the amounts that can be expended over the year.

7. An ex post reasonableness review of PY2002 CARE administrative expenditures that focuses on general consistency with program proposals, rather than a detailed review of whether particular activities are reasonable after-the-fact, is consistent with the degree of flexibility given utilities during rapid deployment to develop and explore various CARE outreach strategies. It is also a reasonable approach in light of the fact that the Commission has not yet completed its evaluation of rapid deployment to determine which strategies have been the most effective, or implemented automatic enrollment.

8. Based on the record in this proceeding, the manner in which the utilities record and report CARE administrative expenditures appears to be very inconsistent, particularly with respect to certain overhead cost categories. An audit of accounts and expenditures during PY2002 will enable us to improve the consistency of utility reporting for future program planning cycles.

9. An ex post audit will also enable us to determine whether the utilities are complying with the Commission's directive that administrative costs booked to CARE be incremental. Extending balancing account treatment to SCE and PG&E provides us a unique opportunity to standardize both the recovery and the reporting of CARE administrative costs between all of the utilities to ensure compliance with this policy.

10. Our ex post reasonableness review of PY2002 CARE administrative costs should include a review of the utilities May 1, 2003 annual reports on PY2002 CARE program expenditures and an Energy Division audit, as described in this decision.

11. The CARE outreach activities proposed by the utilities are consistent with the types of rapid deployment outreach efforts the Commission authorized in D.01-05-033.

12. Authorizing the utilities to proceed with their proposed CARE outreach strategies is an appropriate "stay-the-course" approach to rapid deployment until we have completed our evaluation of rapid deployment efforts and have gained experience with automatic enrollment.

13. PG&E and SCE have requested amounts for outreach activities that far exceed what it appears they can realistically spend during PY2002, as discussed in this decision. The adopted budgets for this category better reflect the rate of expenditures during the first half of the year, while allowing for an acceleration of outreach activities during the second half of the year. They also allow for an increase over 2001 expenditures in consideration of the minimum penetration rate targets established for PY2002.

14. SoCal's requested budget for outreach activities reflects anticipated increases in expenditures booked to the account during the latter half of the year due to multi-lingual media outreach campaigns, additional capitation contractors and increases in costs for general outreach activities.

15. The upward trend in penetration rates and continued need for re-certification and verification activities during 2002 would appear to warrant budget increases to the processing / certification / verification category for all utilities. However, SCE and SoCal have spent only about one-fourth of their proposed PY2002 budgets for this category as of mid-year, and have not

provided any explanation for this large difference. The adopted budgets for these utilities better reflect the rate of expenditures for these utilities during the first half of the year, while still allowing for an acceleration of processing, certification and verification activities during the second half of the year.

16. As discussed in this decision, the automatic enrollment program adopted in D.02-07-033 is expected to decrease the costs associated with processing, certification and verification in several ways. The utilities should anticipate these cost reductions beyond PY2002 by maintaining maximum flexibility to respond quickly to such changes as we proceed with this program.

17. This wide divergence in the utilities' cost estimates and rather erratic accounting practices for bill system programming raises the issue of whether reasonable, consistent conventions are being applied by the utilities in booking and recovering these types of expenditures.

18. The costs of studies and reports associated with our ongoing monitoring and evaluation of the low-income assistance program have increased since 2001, when rapid deployment was initiated. The utilities' proposed budgets provide a reasonable estimate of the increased costs, and actual expenditure levels to date reflect the fact that most of the expenditures for the year will occur during the second half as Phase 2 of the Needs Assessment gets underway. However, SCE's budget did not include the Phase 2 Needs Assessment costs allocated per Resolution E-3646, and should be adjusted accordingly. As discussed in this decision, in their May 1, 2003 report the utilities should break down the actual expenditures under this budget category by specific study in order to facilitate our ex post review.

19. For regulatory compliance and general administration, the proposed budgets and actual expenditures vary dramatically across utilities, as described in this decision. Differences in the types of costs booked to this account may

account for some of these disparities, but there is not enough information on the record to make a determination.

20. For regulatory compliance, SoCal explained that it has only recorded $35 to date in this category due to internal posting and recording procedures issues that are currently being worked out. SoCal anticipates that these issues will be resolved in the next few months and that it will be booking to this cost category the full proposed amount. SoCal's proposed budget provides a reasonable estimate of the regulatory costs it will incur.

21. SDG&E and SoCal have not justified any increases to their general administration budgets, but have provided an explanation as to why booked expenditures currently diverge so noticeably from projected costs. Under these circumstances, it is reasonable to adopt PY2002 budgets for SDG&E's and SoCal's general administration costs at the level of the utility's actual PY2001 expenditures.

22. The utilities reporting and recording of indirect costs of the CARE program vary widely, as discussed in this decision. The record in this proceeding is insufficient to determine the extent to which these costs are also booked in base rates.

23. The utilities proposed budgets appropriately reflect the fact that there are no pilot programs authorized during PY2002.

24. The utilities proposed budgets for Energy Division staff requirements are reasonable, except that SCE's budget should be adjusted downwards to reflect the fact that SBX1 5 reimbursement funds for Energy Division staff requirements are "taken off the top."

25. The issue of funding for the LIOB is currently before the Commission in proposed Resolution No. L-301. For the purpose of establishing the CARE rate, it

is reasonable to adopt the amounts that PG&E, SDG&E, and SoCal submitted in their applications, and budget $50,000 for SCE.

26. As described in this decision, SCE's ratemaking proposal for CARE expenditures is consistent both with the intent of SBX2 2 and with the rate recovery provisions of the Settlement Agreement. It is also identical to the Commission's recently adopted ratemaking treatment for increases in SCE's baseline subsidies and associated administrative expenses.

Conclusions of Law

1. The CARE administrative budgets adopted in today's decision are reasonable. As discussed in this decision, these budgets do not cap allowable expenditures in each budget category. They represent a level of CARE revenues to be collected in the CARE balancing account, subject to our ex post review of actual CARE expenditures.

2. Per D.02-07-033, the utilities should separately track the costs associated with the automatic enrollment program in the CARE balancing account. The utilities should work with Energy Division during program implementation to establish consistent accounting conventions for this purpose.

3. The CARE budgets adopted today should be effective until further Commission order. They should be reassessed during 2003 in light of the impact that automatic enrollment has on CARE enrollments and overall administrative costs.

4. As discussed in this decision, the utilities should use today's adopted budgets to establish the CARE surcharge rate in the appropriate rate setting proceedings.

5. PG&E and SCE should be authorized balancing account treatment for CARE administrative costs, consistent with SBX2 2.

6. PG&E's proposed balancing account and related tariff sheets for CARE administrative costs, as presented in Advice Letter 2352-G / 2175-E are reasonable and should be adopted.

7. SCE's proposal to modify PROACCT, as described in this decision, is reasonable and should be adopted. SCE should file an Advice Letter to implement these changes within 20 days from the effective date of this decision.

8. Cost recovery of CARE administrative costs should be subject to the reasonableness review process described in this decision.

9. The utilities should track the actual costs of the Energy Division audit under the Energy Division cost category in their CARE balancing accounts, to be reimbursed along with other CARE-related Energy Division expenses.

10. In order to implement the balancing account provisions of SBX2 2 and address the CARE funding shortfall for PY2002 as expeditiously as possible, this order should be effective today.

11. There being no further issues to resolve in this proceeding, A.02-04-031, A.02-04-034, A.02-04-035 and A.02-04-036 should be closed.

O R D E R

IT IS ORDERED that:

1. Pacific Gas and Electric Company (PG&E), San Diego Gas & Electric Company (SDG&E), Southern California Edison Company (SCE) and Southern California Gas Company (SoCal), referred to collectively as "the utilities," are authorized the following CARE budgets for program year (PY) 2002:

Authorized PY2002 CARE Budgets				
Cost Category	**PG&E**	**SCE**	**SDG&E**	**SoCal**
Outreach	$ 5,095,000	$ 840,840	$ 2,011,074	$ 3,087,794

Processing/Certification/Verification	$ 1,320,000	$ 520,798	$ 212,235	$ 766,030
Billing/Programming	$ 20,000	$ 500,000	$ 35,000	$ 596,898
Measurement/Evaluation	$ 266,600	$ 344,000	$ 301,366	$ 55,800
Regulatory Compliance	$ 100,000	$ 80,000	$ 86,286	$67,045
General Administration	$ 321,552	$ 464,500	$ 189,185	$ 24,794
Indirect Costs	$0	$82,700	$ 416,058	$0
Energy Division	$ 82,700	$ 195,500	$ 30,000	$ 68,950
LIAB/LIOB	$ 100,000	$50,000	$ 47,832	$ 35,000
Total Administration	$ 7,305,852	$ 3,078,338	$ 3,329,036	$ 4,702,311
CARE Subsidy	$ 125,000,000	$ 93,400,000	$ 25,568,477	$ 42,533,000
Total CARE Program	$ 132,305,852	$ 96,478,338	$ 28,897,513	$ 47,235,311

Within 10 days from the effective date of this decision, PG&E and SDG&E shall file Advice Letters that allocate the authorized budget between their electric and gas departments. These advice letters shall be effective on filing subject to Energy Division determining that they are in compliance with this decision.

2. The annual CARE budgets authorized today shall be in effect until further Commission order.

3. SDG&E shall propose adjustments to the electric component of its CARE rate in its next appropriate rate proceeding to reflect today's adopted CARE budget and to amortize under- or over-collections in its current CARE balancing account, as appropriate.

4. PG&E's Advice Letter 2352-G/2175-E is approved. PG&E shall file for adjustments to the electric component of its CARE rate established by that Advice Letter in its next RAP to reflect today's adopted CARE budget. Any proposed adjustments to the CARE rate to also amortize balances in PG&E's electric CARE balancing accounts (for subsidies or administrative costs) must be consistent with electric rate freeze provisions of Assembly Bill (AB) 1890 and the directions of this Commission concerning rate recovery under those provisions.

5. Within 20 days from the effective date of this decision, SCE shall file an advice letter to implement the ratemaking treatment for CARE-related expenses

described in this decision and illustrated in Attachment 5. This advice letter shall be effective on filing, subject to Energy Division determining that it is in compliance with this decision.

6. On the gas side, SDG&E, PG&E, and SoCal shall submit proposed gas surcharge rates, pursuant to Public Utilities Code Section 890(e), to become effective with other year-end consolidated gas rate updates on January 1, 2003. The proposed rates shall reflect today's adopted CARE budgets. SDG&E, PG&E, and SoCal shall file their Advice Letters by October 15, 2002.

7. Cost recovery of the utilities' CARE administrative costs for PY2002 and beyond is conditioned upon the Commission's final determination of reasonableness, not withstanding any decision by the Commission to authorize the amortization of balances in the utilities' CARE balancing accounts.

8. As described in this decision, the Commission's reasonableness review of CARE administrative costs consists of an ex ante (before the fact) review of proposed CARE administrative activities and budgets and an ex post (after the fact) review of actual CARE administrative expenditures. For PY2002, the ex post review will include an audit by Energy Division of all CARE administrative costs. The utilities shall close their books for PY2002 by March 2003 for this purpose. The audit shall be designed to examine the specific details of the various utility practices, with respect to recording and reporting CARE administrative costs. The audit shall include an evaluation of where CARE administrative costs are currently being recovered and present findings on whether or not the costs booked to the CARE account are incremental, i.e., not provided for in the utility's base rates.

Energy Division shall also provide recommendations on how the utilities should report and recover CARE administrative expenditures on a more consistent basis in the future, and on whether any recorded PY2002 expenditures should be disallowed for cost recovery. Energy Division's audit report is due by August 1, 2003, and shall be filed with the Commission's Docket Office in Rulemaking (R.) 01-08-027, with service on all parties to this proceeding and R.01-08-027. Comments are due within 30 days of Energy Division's filing of the report and replies are due 15 days thereafter. Energy Division may perform the audit itself or hire independent contractors for this purpose. We delegate the task of approving the budget and schedule for the audit to the Assigned Commissioner in R.01-08-027. In addition, the Assigned Commissioner shall establish a schedule for comments on Energy Division's audit and address other procedural matters related to the reasonableness review of PY2002 program expenditures.

9. As discussed in this decision, the utilities shall track the actual costs of Energy Division's audit in their CARE balancing accounts, under the Energy Division cost category, to be reimbursed along with other Energy Division CARE-related expenses.

10. The Assigned Commissioner in R.01-08-027, in consultation with Energy Division and the assigned Administrative Law Judge, may initiate additional audits of CARE expenditures after-the-fact, should the Energy Division audit and our ex post review of reasonableness for PY2002 indicate that further examination is needed.

11. The Assigned Commissioner may, for due cause, modify the due dates set forth in this decision.

12. All reports and other submittals required by this decision shall be filed at the Commission's Docket Office in R.01-08-027 and served electronically on all appearances and the state service list in this proceeding and R.01-08-027. Service by U.S. mail is optional, except that one hard copy shall be mailed to Judge Meg Gottstein at P.O. Box 210, Volcano, CA 95689. In addition, if there is no

electronic mail address available, the electronic mail is returned to the sender, or the recipient informs the sender of an inability to open the document, the sender shall immediately arrange for alternate service (regular U.S. mail shall be the default, unless another means—such as overnight delivery—is mutually agreed upon). Parties that prefer a hard copy or electronic file in original format in order to prepare analysis and filings in this proceeding may request service in that form as well. The current service list for this proceeding is available on the Commission's web page, www.cpuc.ca.gov.

13. Application (A.) 02-04-031, A.02-04-034, A.02-04-035 and A.02-04-036 are closed.

This order is effective today.

Dated September 5, 2002, at San Francisco, California.

LORETTA M. LYNCH
President
CARL W. WOOD
GEOFFREY F. BROWN
MICHAEL R. PEEVEY
Commissioners

Commissioner Henry M. Duque, being necessarily absent, did not participate.

ATTACHMENT 1

ACRONYMS/ABBREVIATIONS

PY – Program Year
CARE – California Alternate Rates For Energy
PG&E – Pacific Gas and Electric Company
SDG&E – San Diego Gas & Electric Company
SCE – Southern California Edison Company
SoCal – Southern California gas Company
SBX2 2 – Senate Bill No. 2 from the Second Extraordinary Session
LIEE – Low-Income Energy Efficiency
PGC – Public Goods Charge
ORA – Office of Ratepayer Advocates
PHC – Prehearing Conference
Working Group – Reporting Requirements Manual Working Group
LIAB – Low Income Advisory Board
LIOB – Low-Income Oversight Board
LIRA – Low Income Ratepayer Assistance
RAP – Rate Adjustment Proceeding
BCAP – Biennial Cost Adjustment Proceeding
AL – Advice Letter
PROACT – Procurement Related Obligations account
SRBA – Settlement Ratemaking Balancing Account

(END OF ATTACHMENT 1)

ATTACHMENT 2

Calculation of PY2002 Minimum Targets—Net Enrollment

A	B	C	D	E	F
	Total Enrolled 12-31-01	PY 2002 Goal Rate	PY 2002 Estimated Elig.	PY 2002 Estimated Participants	PY2002 Target Net Enrollment
(Source)	(1)		(2)	(Col. C*D)	(2)
PG&E	554,038	63%	1,079,938	680,361	126,323
SCE	729,367	93%	835,761	777,258	47,891
SDG&E	151,121	75%	240,563	180,422	29,301
SoCal	655,446	70%	1,089,805	762,864	107,418
(1) CARE Annual Reports, dated June 1, 2002.					
(2) Based on estimated eligible on June 30, 2002, as reported in July 21, 2002 Rapid Deployment Reports, Table 16.					

(END OF ATTACHMENT 2)

ATTACHMENT 3

CARE Proposed and Authorized PY2002 Budgets, with Expenditure Information

	Pacific Gas and Electric			
CARE Program Costs:	Actual 2001	Proposed 2002	1/1/02 thru 6/30/02 Actual	Adopted
Total Outreach	$3,247,915	$7,641,534	$2,038,000	$5,095,000
Processing/ Certification/Verification	$948,103	$1,320,000	$514,406	$1,320,000
Billing System /Programming	$16,938	$20,000	$210	$20,000
Measurement & Evaluation	$1,693	$266,600	$0	$266,600
Regulatory Compliance	$68,458	$100,000	$128,468	$100,000
General Administration	$272,879	$321,552	$305,672	$321,552
Indirect Costs	$0	$0	$0	$0
CPUC Energy Division	$65,535	$82,700	$53,980	$82,700
LIAB/LIOB	$0	$0	$0	$100,000
TOTAL ADMIN COSTS	$4,621,521	$9,752,386	$3,040,736	$7,305,852
CARE Rate Discount	$70,023,000	$125,000,000	$43,753,590	$125,000,000
TOTAL PROGRAM COSTS	$74,644,521	$134,752,386	$46,794,326	$132,305,852

Source:
All Admin Costs from July 22 Joint Utility Report
2001 Subsidy from CARE Annual Report
2002 Proposed Subsidy from Application
2002 Y-T-D Subsidy From July 22, 2002 RD Report

	Southern California Edison			
CARE Program Costs:	Actual 2001	Proposed 2002	1/1/02 thru 6/30/02 Actual	Adopted
Total Outreach	$601,743	$1,700,000	$224,224	$840,840
Processing/ Certification/Verification	$329,190	$780,000	$208,319	$520,798
Billing System /Programming	$0	$500,000	$76,253	$500,000
Measurement & Evaluation	$5,004	$80,000	$2,502	$344,000
Regulatory Compliance	$60,000	$80,000	$30,000	$80,000
General Administration	$862,854	$464,500	$232,951	$464,500
Indirect Costs	$257,495	$0	$82,185	$87,700
CPUC Energy Division	$53,253	$195,500	$11,666	$195,500
LIAB/LIOB	$0	$0	$0	$50,000
TOTAL ADMIN COSTS	$2,169,539	$3,800,000	$868,100	$3,078,338
CARE Rate Discount	$68,837,345	$93,400,000	$42,784,496	$93,400,000
TOTAL PROGRAM COSTS	$71,006,884	$97,200,000	$43,652,596	$96,478,338

Source:
All Admin Costs from July 22 Joint Utility Report
2001 Subsidy from CARE Annual Report
2002 Proposed Subsidy from Application
2002 Y-T-D Subsidy From July 22, 2002 RD Report

CARE Program Costs:	San Diego Gas & Electric Actual 2001	Proposed 2002	1/1/02 thru 6/30/02 Actual	Adopted
Total Outreach	$1,120,289	$2,011,074	$883,883	$2,011,074
Processing/ Certification/Verification	$193,318	$212,235	$77,606	$212,235
Billing System /Programming	$315	$35,000	$0	$35,000
Measurement & Evaluation	$5,842	$301,366	$7,246	$301,366
Regulatory Compliance	$45,205	$86,286	$30,324	$86,286
General Administration	$189,185	$190,174	$47,135	$189,185
Indirect Costs	$81,926	$416,058	$150,336	$416,058
CPUC Energy Division	$38,610	$30,000	$27,200	$30,000
LIAB/LIOB	$48,210	$47,832	$19,930	$47,832
TOTAL ADMIN COSTS	$1,722,900	$3,330,025	$1,243,660	$3,329,036
CARE Rate Discount	$15,422,789	$25,568,477	$9,301,153	$25,568,477
TOTAL PROGRAM COSTS	$17,145,689	$28,898,502	$10,544,813	$28,897,513

Source:
All Admin Costs from July 22 Joint Utility Report
2001 Subsidy from CARE Annual Report
2002 Proposed Subsidy from Application
2002 Y-T-D Subsidy From July 22, 2002 RD Report

CARE Program Costs:	Southern California Gas Company			
	Actual 2001	Proposed 2002	1/1/02 thru 6/30/02 Actual	Adopted
Total Outreach	$1,782,821	$3,087,794	$1,008,210	$3,087,794
Processing/ Certification/Verification	$845,048	$1,128,472	$306,413	$766,030
Billing System /Programming	$181,444	$596,898	$235,304	$596,898
Measurement & Evaluation	$0	$55,800	$0	$55,800
Regulatory Compliance	$107,062	$67,045	$35	$67,045
General Administration	$24,794	$51,440	$1,021	$24,794
Indirect Costs	$0	$0	$0	$0
CPUC Energy Division	$68,929	$68,950	$40,802	$68,950
LIAB/LIOB	$0	$35,000	$0	$35,000
TOTAL ADMIN COSTS	$3,010,098	$5,091,399	$1,591,785	$4,702,311
CARE Rate Discount	$39,782,791	$42,533,000	$21,322,523	$42,533,000
TOTAL PROGRAM COSTS	$42,792,889	$47,624,399	$22,914,308	$47,235,311

Source:
All Admin Costs from July 22 Joint Utility Report
2001 Subsidy from CARE Annual Report
2002 Proposed Subsidy from Application
2002 Y-T-D Subsidy From July 22, 2002 RD Report

Authorized PY2002 CARE Budgets				
Cost Category	PG&E	SCE	SDG&E	SoCal
Outreach	$ 5,095,000	$ 840,840	$ 2,011,074	$ 3,087,794
Processing/Certification/Verification	$ 1,320,000	$ 520,798	$ 212,235	$ 766,030
Billing/Programming	$ 20,000	$ 500,000	$ 35,000	$ 596,898
Measurement/Evaluation	$ 266,600	$ 344,000	$ 301,366	$ 55,800
Regulatory Compliance	$ 100,000	$ 80,000	$ 86,286	$67,045
General Administration	$ 321,552	$ 464,500	$ 189,185	$ 24,794
Indirect Costs	$0	$82,700	$ 416,058	$0
Energy Division	$ 82,700	$ 195,500	$ 30,000	$ 68,950
LIAB/LIOB	$ 100,000	$50,000	$ 47,832	$ 35,000
Total Administration	$ 7,305,852	$ 3,078,338	$ 3,329,036	$ 4,702,311
CARE Subsidy	$ 125,000,000	$ 93,400,000	$ 25,568,477	$ 42,533,000
Total CARE Program	$ 132,305,852	$ 96,478,338	$ 28,897,513	$ 47,235,311

Statewide--PG&E, SCE, SDG&E and SoCal			
Cost Category	PY 2001	PY 2002 Requested	Authorized
Outreach	$ 6,752,768	$ 14,440,402	$ 11,034,708
Processing/Certification/Verification	$ 2,315,659	$ 3,440,707	$ 2,819,063
Billing/Programming	$ 198,697	$ 1,151,898	$ 1,151,898
Measurement/Evaluation	$ 12,539	$ 703,766	$ 967,766
Regulatory Compliance	$ 280,725	$ 333,331	$ 333,331
General Administration	$ 1,349,712	$ 1,027,666	$ 1,000,031
Indirect Costs	$ 339,421	$ 416,058	$ 498,758
Energy Division	$ 226,327	$ 377,150	$ 377,150
LIAB/LIOB	$ 48,210	$ 82,832	$ 232,832
Total Administration	$ 11,524,058	$ 21,973,810	$ 18,415,537
CARE Subsidy	$ 194,065,925	$ 286,501,477	$ 286,501,477
Total CARE Program	$ 205,589,983	$ 308,475,287	$ 304,917,014

(END OF ATTACHMENT 3)

ATTACHMENT 4

PY2002 PLANS FOR MULTI-LINGUAL RECERTIFICATION LETTERS

Language	PG&E	SCE	SDG&E	SoCal
Cambodian		X*		
Chinese	X	X*		X *
Korean		X*		X *
Spanish	X	X	Footnote in Spanish on English version	X
Vietnamese	X	X*	Footnote in Vietnamese on English version	X *
Other Efforts to reach non-English speaking enrollees during re-certification	PG&E continues to support our multi-lingual customers with language appropriate assistance on our toll-free number to the CARE Processing Center. However, in addition to this effort, PG&E is exploring the possibility of the following new and continuing efforts: 1) Continuation of use of an outbound calling unit to remind customers of their need to recertify; 2) inclusion of a bill message in English and Spanish directly linked to recertification and appearing on the customer bill as a reminder before being removed from the program; 3) mailing of a separate four-language recertification reminder notice before the end of the recertification grace period.	SCE will continue to send a follow-up letter to customers who failed to respond to the recertification letter after 30 days. In addition SCE will initiate a follow-up letter to customers who failed to respond to a verification letter. Finally, SCE will be evaluating the capability of existing programming systems to automatically insert a bill message on customers receiving recertification or verification letters.	SDG&E is looking to implement a Mosaix outbound dialing call that would notify customers that their recerification information has not been received. SDG&E will continue to 1) send a second letter to customers who do not respond to the request for recertification; 2) print a bill message on bills of those customers' who do not respond to the request for recertification 3) inform all CARE customers when they call in with questions that recertification is a requirement of CARE; 4), print statement on the application noticing customers that recertification is a requirement of CARE; and 4) remind the CBOs to inform clients about recertification when discussing the CARE Program.	SoCal is looking into using its Outbound Dialing System that would notify the customers that their recertification info has not been received. SoCal will continue to 1) print a bill message on bills of those customers' who do not respond to the request for recertification 2) inform all CARE customers when they call the CARE 800 number with questions that recertification is a requirement of CARE, 3) print statement on the application and the post-enrollment verification application noticing customers that recertification is a requirement of CARE, and 4) remind the CBOs to inform clients about recertification and verification when discussing the CARE Program.

* Asian letters provided upon request

(END OF ATTACHMENT 4)

ATTACHMENT 5

SCE's Proposed Modifications to CARE Ratemaking

Southern California Edison Company
CARE Ratemaking

I. How "PROACT" Ratemaking Works:								
In the Settlement Rate Balancing Account (SRBA):								
			Total Revenue					
		Less:	Recoverable Costs					
		Equals	Surplus		Used to amortize PROACT			
					Balance			
II. An Example:						($000)		
						Prior to	After	
						Increased	Increased	Impact
						Eligibility	Eligibility	(Undercollection)
			CARE-Discount			(2,000)	(5,000)	(3,000)
			CARE-Surcharge			2,000	2,000	-
			All Other Revenue			800,000	800,000	-
			Total Revenue			800,000	797,000	(3,000)
		Less:	Authorized CARE Administrative Rev. Rqmt.			1,400	1,400	
			All Other Recoverable Costs			648,600	648,600	-
			Total Recoverable Costs			650,000	650,000	-
		Equals	SURPLUS			150,000	147,000	(3,000)
III. Proposed Ratemaking Entries:								
	Part A (Difference between Discount and Surcharge):							
				Remove Undercollection from SRBA			3,000	
				Record Undercollection in CBA				(3,000)
				Where:	SURPLUS Equals		150,000	
					Undercollection Recorded in CBA			(3,000)
	Part B (CARE Administrative Revenue Requirement):							
				Authorized CARE Admin. Revenue Requirement				1,400
				Actual CARE Admin. Expenses				(1,600)
					Undercollection Recorded in CBA			(200)
	CARE Balancing Account:			Difference between Discount and Surcharge			A	(3,000)
				Difference between Authorized and Actual Admin.			B	(200)
							Total	(3,200)

		/1 The undercollected balance recorded in the CBA will be recovered after the PROACT Rate Repayment Period.
IV. Summary:		
	In order for SCE to maintain revenue neutrality while increasing the CARE eligibility with no overall corresponding change in rates, SCE proposes to establish a new CARE Balancing Account (CBA). The CBA will record the undercollection in revenues by comparing the amount of the CARE Discount with the CARE Surcharge. Under the current Commission-approved ratemaking structure, the undercollection in revenues will automatically be recorded to the PROACT. In order to ensure that the undercollection is appropriately recorded only in the CBA (and not the SRBA), SCE will remove the CARE-related undercollection from the SRBA. On a monthly basis, SCE will credit the SRBA by an amount equal to the debit recorded in the CBA associated with the difference between the CARE Discount and CARE Surcharge amounts.	
	In addition, the authorized CARE administrative revenue requirement will be a Recoverable Cost, as is the current Commission adopted practice. The difference between the authorized CARE revenue requirement and the actually incurred CARE administrative expenses will also be recorded in the CBA. The disposition of the amounts recorded in the CBA will be recovered after the PROACT Rate Repayment Period.	

(END ATTACHMENT 5)